

**REPORT OF THE AUDIT OF THE
LINCOLN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2003**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Ronald Gilbert, Lincoln County Judge/Executive
Honorable Shelby R. Lakes, Lincoln County Sheriff
Members of the Lincoln County Fiscal Court

The enclosed report prepared by Moore Stephens Potter, LLP, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees of the County Sheriff of Lincoln County, Kentucky, for the year ended December 31, 2003.

We engaged Moore Stephens Potter, LLP to perform the audit of this statement. We worked closely with the firm during our report review process; Moore Stephens Potter, LLP evaluated the Lincoln County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
LINCOLN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2003**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LINCOLN COUNTY SHERIFF

**For The Year Ended
December 31, 2003**

Moore Stephens Potter, LLP has completed the Lincoln County Sheriff's audit for the year ended December 31, 2003. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

Financial Condition:

Excess fees increased by \$4,017 from the prior year, resulting in excess fees of \$4,707 as of December 31, 2003. Revenues increased by \$87,152 from the prior year and expenditures increased by \$83,135.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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The Honorable Ronald Gilbert, Lincoln County Judge/Executive
The Honorable Shelby R. Lakes, Lincoln County Sheriff
Members of the Lincoln County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Lincoln County, Kentucky, for the year ended December 31, 2003. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 30, 2004, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Honorable Ronald Gilbert, Lincoln County Judge/Executive
The Honorable Shelby R. Lakes, Lincoln County Sheriff
Members of the Lincoln County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Lincoln County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Moore Stephens Potter, LLP".

Moore Stephens Potter, LLP

Audit fieldwork completed -
November 30, 2004

LINCOLN COUNTY
SHELBY R. LAKES, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

State -

Kentucky Law Enforcement Foundation Program Fund	\$ 22,850	
Court Security	44,083	
Finance and Administration Cabinet	<u>5,220</u>	\$ 72,153

Circuit Court Clerk -

Sheriff Security Service	\$ 18,029	
Fines and Fees Collected	3,610	
Court Ordered Payments	<u>8,280</u>	29,919

Fiscal Court		63,348
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County Clerk - Delinquent Taxes		2,635
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Commission On Taxes Collected		143,024
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Fees Collected For Services:

Auto Inspections	\$ 5,255	
Accident and Police Reports	868	
Serving Papers	16,480	
Carrying Concealed Deadly Weapon Permits	<u>3,180</u>	25,783

Other -

Tax Collection Fees	\$ 32,742	
Miscellaneous	<u>11,633</u>	44,375

Interest Earned		1,243
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Borrowed Money -

State Advancement		<u>104,111</u>
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Total Revenues		\$ 486,591
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The accompanying notes are an integral part of this financial statement.

LINCOLN COUNTY
 SHELBY R. LAKES, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures

Operating Expenditures:

Personnel Services -

Deputies' Gross Salaries	\$	175,441	
Court Security Salaries		41,518	
Other Gross Salaries		23,391	
KLEFPF		21,370	\$ 261,720

Employee Benefits-

Employer's Share Retirement			1,454
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Auto Expense-

Vehicle Maintenance and Repairs	\$	10,796	
Lease Payments		18,248	29,044

Supplies and Materials -

Office Materials and Supplies	\$	3,100	
Uniforms and Equipment		477	3,577

Other Charges-

Postage	\$	103	
Carrying Concealed Deadly Weapon Permits		2,200	
Lincoln County Ordinance		8,270	
Miscellaneous		2,340	12,913

Debt Service:

State Advancement			104,111
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Total Expenditures

\$ 412,819

Net Revenues

\$ 73,772

Less: Statutory Maximum

68,307

Excess Fees

\$ 5,465

Less: Training Incentive Benefit

758

Excess Fees Due Fiscal Court for 2003

\$ 4,707

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems.

This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months of the year and 7.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

Note 4. Federal Forfeiture Accounts

A. Federal Forfeiture Account

During 2003, under the terms stipulated by the United States Department of Justice and the Commonwealth of Kentucky, the Sheriff's office received proceeds emanated from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These proceeds may be used for law enforcement activities. As of January 1, 2003, this account had a balance of \$0. During 2003, funds of \$8,788 were received and \$511 was expended, leaving a balance of \$8,278 as of December 31, 2003.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 4. Federal Forfeiture Accounts (Continued)

B. State and Local Forfeiture Account

During 2003 the Sheriff's office received proceeds emanated from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These funds are to be used for law enforcement activities. As of January 1, 2003, this account had a balance of \$8,181. During 2003 funds of \$9,924 were received and \$15,112 was expended, leaving a balance of \$2,993 as of December 31, 2003.

Note 5. Grant

The fiscal court received two grants for the Sheriff's office. The first grant is a Body Armor Program from the Department for Local Government in the amount of \$2,320. There were no funds expended from this grant during calendar year 2003 leaving an unexpended balance of \$2,320 at December 31, 2003. The second grant is a COPS Universal Hiring Program from the U.S. Department of Justice in the amount of \$150,000. Funds expended on this grant were \$49,997 during calendar year 2003 leaving an unexpended balance of \$100,003 at December 31, 2003.

Note 6. Leases

The Lincoln County Fiscal Court was committed to a lease agreement with the Ford Motor Credit, Co. for vehicles for the Sheriff's department. The office of the County Sheriff was to make the annual payments from its revenues. The agreements require annual payments of various amounts and dates. The total balance for all leases was \$24,433 as of December 31, 2003.

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COMMENT AND RECOMMENDATION

LINCOLN COUNTY
SHELBY R. LAKES, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2003

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL – REPORTABLE CONDITION:

Lacks Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control such as functions prescribed by statutes and regulations, and by budgetary constraints. Due to limited staff, a proper segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is not a material weakness. We recommend the Sheriff establish a proper segregation of duties over his operations. In order to offset this internal control weakness, the Sheriff should have assigned duties to another deputy/ employee. Duties that should have been segregated include preparing deposits, reconciling bank statements, opening mail, and preparing and distributing checks. The other deputy/ employee should have documented performing these duties by initialing and dating documentation.

Sheriff's Response:

Not enough staff to comply.

INTERNAL CONTROL – MATERIAL WEAKNESS:

None.

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

This comment has been repeated in the current year audit.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



MOORE STEPHENS POTTER LLP

CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS ADVISORS

The Honorable Ronald Gilbert, Lincoln County Judge/Executive
The Honorable Shelby R. Lakes, Lincoln County Sheriff
Members of the Lincoln County Fiscal Court

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Lincoln County Sheriff for the year ended December 31, 2003, and have issued our report thereon dated November 30, 2004. This was a special report on the County Sheriff's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lincoln County Sheriff's financial statement for the year ended December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lincoln County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Lincoln County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Moore Stephens Potter, LLP". The signature is written in a cursive, flowing style.

Moore Stephens Potter, LLP

Audit fieldwork completed -
November 30, 2004

